

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15
STR-05 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
FEAE-00 OMB-01 OIC-02 AF-10 ARA-10 NEA-10 /142 W
-----079036 131816Z /40

R 131705Z SEP 77

FM USMISSION GENEVA
TO SECSTATE WASHDC 1052
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO

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USEEC ALSO FOR EMBASSY

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: ETRD, GATT, SW, BE

SUBJECT: EXPORT INFLATION INSURANCE (EII) WORKING PARTY

REF: (A) STATE 20431, (B) GENEVA 6349

1. SUMMARY: EII WORKING PARTY COMPLETED WORK BY AGREEING TO
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FINAL REPORT. REPORT INCLUDES SPLIT CONCLUSIONS ALONG LINES
SUGGESTED BY U.S. IN REF (B). END SUMMARY.

2. IN TWO-DAY HOTLY DEBATED SESSION PLUS BILATERAL AND MULTI-
LATERAL MEETINGS, WP FINALLY AGREED TO FINAL REPORT THAT RESPONDS
TO MAJOR U.S. CONCERNS REF (A). BODY OF WP REPORT REMAINS
ESSENTIALLY THE SAME AS SECRETARIAT DRAFT REPORT (SPEC(77)21/

REV.1) EXCEPT THAT COUNTRIES ARE IDENTIFIED BY NAME THROUGHOUT THE TEXT. WE RE-WORKED PARAGRAPH SUMMARIZING U.S. STATEMENT TO INCLUDE COMMENTS ON DUAL PRICING AND TO IDENTIFY INDIVIDUAL EII SCHEMES (SEE PARA 3 BELOW). EC DID NOT REPEAT NOT ASK FOR ADDITIONAL STATEMENT ON SELF-FINANCING AS A CRITERION AND EXPLICITLY INDICATED THAT THE EC WAS ONE OF THOSE MEMBERS OF THE WP EXPRESSING NO VIEW. AS EXPECTED, THERE WAS EXTENDED DEBATE OVER CONCLUSIONS SUGGESTED BY U.S. (REF B). LANGUAGE FINALLY AGREED TO IS AS FOLLOWS: QUOTE.

THE WORKING PARTY COULD NOT REACH ANY UNANIMOUS CONCLUSION AS TO THE COMPATIBILITY OF THE EXPORT INFLATION INSURANCE SCHEMES WITH THE PROVISIONS OF THE GENERAL AGREEMENT.

SEVERAL MEMBERS OF THE WORKING PARTY HELD THE VIEW THAT EXPORT INFLATION INSURANCE SCHEMES UNDER EXAMINATION BY THE WORKING PARTY WERE SUBSIDIES IN CONTRAVENTION OF ARTICLE XVI:4 AND SHOULD BE NOTIFIED UNDER ARTICLE XVI:1. THESE MEMBERS EXPRESSED SPECIAL CONCERN OVER THE DEGREE OF SUBSIDY INVOLVED IN ONE SCHEME WHICH HAD INCURRED SUBSTANTIAL LOSSES FINANCED BY THE GOVERNMENT.

THESE AND SEVERAL OTHER MEMBERS OF THE WORKING PARTY EXPRESSED CONCERN OVER THE DISTORTIVE EFFECT WHICH THESE SCHEMES HAD ON INTERNATIONAL TRADE IN PRODUCTS COVERED BY THE SCHEMES, AND OVER THE FACT THAT THESE PROGRAMMES ENCOURAGED THE ADOPTION OF SIMILARLY DISTORTIVE MEASURES BY OTHER NATIONS. THESE MEMBERS LIMITED OFFICIAL USE

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CALLED FOR THE TERMINATION OF EXISTING PROGRAMMES.

SEVERAL OTHER MEMBERS OF THE WORKING PARTY HELD THE VIEW THAT EXPORT INFLATION INSURANCE SCHEMES WERE ONLY IN CONTRAVENTION OF THE GENERAL AGREEMENT WHERE THEY COULD BE SHOWN TO BE SUBSIDIES UNDER THE TERMS OF ARTICLE XVI. SOME OF THESE MEMBERS, PARTICULARLY THOSE AT PRESENT OPERATING EII SCHEMES, CONSIDERED THAT SCHEMES OPERATING IN LONG-TERM FINANCIAL EQUILIBRIUM WERE NOT SUBSIDIES, WERE IN CONFORMITY WITH THE GENERAL AGREEMENT AND DID NOT HAVE DISTORTIVE EFFECTS ON INTERNATIONAL TRADE. THEY DID NOT BELIEVE THAT ANY INDICATION OF DUAL PRICING AS DEFINED IN ARTICLE XVI:4 OR OF ANY SUCH DISTORTION HAD BEEN PRODUCED IN THE WORKING PARTY. IN CONSEQUENCE, THESE MEMBERS DID NOT SUBSCRIBE TO THE CALL FOR THE TERMINATION OF EXISTING SCHEMES.

SOME MEMBERS OF THE WORKING PARTY EXPRESSED NO VIEWS.

THE WORKING PARTY WAS ALSO UNABLE TO REACH CONSENSUS ON THE QUESTION WHETHER THE MEASURES MENTIONED IN PARAGRAPHS 7 TO 15 ABOVE FELL UNDER ITS TERMS OF REFERENCE. THE WORKING PARTY THEREFORE DECIDED TO DRAW THE ATTENTION OF THE COUNCIL TO THIS

FACT. UNQUOTE.

3. PARAGRAPH OF REPORT SUMMARIZING U.S. STATEMENT READS AS FOLLOWS:
QUOTE.

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THE DELEGATE OF THE U.S. STATED THAT HIS AUTHORITIES CONSIDERED
EXPORT INFLATION INSURANCE SCHEMES TO BE SUBSIDIES IN CONTRAVENTION
OF ARTICLE XVI:4 OF THE GENERAL AGREEMENT, THAT THEY SHOULD BE
NOTIFIED UNDER THE PROVISION OF ARTICLE XVI:1 AND THAT THEY SHOULD
BE DISMANTLED PROMPTLY. HE SAID THAT SUCH SCHEMES DISTORTED
INTERNATIONAL TRADE. IN ADDITION TO BEING A DISCINCENTIVE TO
CONTROL COSTS, THEY CONFERRED A COMPETITIVE ADVANTAGE TO BENEFICIARY
EXPORTERS WHO COULD BID MORE AGGRESSIVELY ON INDIVIDUAL TRANSACTIONS
IN THE INTERNATIONAL MARKETS, SECURE IN THE KNOWLEDGE THAT THEY
WOULD NOT HAVE TO BEAR ALONE THEIR COST INCREASES DUE TO INFLATION.
MOREOVER, SINCE THE GUARANTEES APPLIED ONLY TO THE COSTS OF

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PRODUCTS DESTINED FOR EXPORT, THEY RESULTED IN LOWER PRICES ABROAD FOR A GIVEN PRODUCT THAN IN DOMESTIC MARKETS. THE U.S. DELEGATE POINTED OUT THAT EFFORTS HAD BEEN MADE IN THE WP TO ELICIT INFORMATION ON INDIVIDUAL TRANSACTIONS AND ON TRANSACTIONS BY PRODUCT CATEGORY SO AS TO SHOW THE EXTENT OF DUAL PRICING, BUT THAT THOSE MEMBERS MAINTAINING SUCH SCHEMES WOULD NOT DIVULGE SUCH INFORMATION. HE ADDED THAT BY THEIR NATURE, WHEREBY THESE GUARANTEES WERE AVAILABLE FOR EXPORT TRANSACTIONS BUT NOT DOMESTIC TRANSACTIONS, THEY CARRIED A PRESUMPTION OF DUAL PRICING. THE EVIDENCE SHOWED THAT SUCH SCHEMES TENDED TO RUN SIGNIFICANT BUDGETARY DEFICITS OVER TIME. IN THIS CONNECTION HE NOTED THAT ITALY HAD SUSPENDED ITS SCHEME BECAUSE HIGH INFLATION RATES MADE IT TOO COSTLY TO THE GOVERNMENT. THAT SPAIN HAD NOT INSTITUTED A PROPOSED SCHEME BECAUSE OF HIGH INFLATION RATES, AND THAT FRANCE ADMITTED ITS SCHEME HAD BEEN IN DEFICIT FOR SEVERAL YEARS. HE UNDERSTOOD IT (THE FRENCH SCHEME) WAS LIKELY TO REMAIN IN DEFICIT FOR THE INDEFINITE FUTURE. HE SAID THAT EVEN WHERE SUCH SCHEMES WERE PRESENTLY INACTIVE, THEIR MERE EXISTENCE CONSTITUTED A POTENTIAL THREAT TO THIRD-COUNTRY EXPORTERS. HE NOTED THAT THESE SCHEMES LEAD OTHER COUNTRIES TO DEVELOP SIMILAR SUBSIDIES IN ORDER TO COUNTER THE TRADE DISTORTIONS INHERENT IN THESE SCHEMES. HE NOTED, ALTHOUGH COST INFLATION INSURANCE SCHEMES WERE NOT INCLUDED IN THE 1960 ILLUSTRATIVE LIST OF MEASURES CONSIDERED TO BE EXPORT SUBSIDIES UNDER ARTICLE XVI:4, THAT THE 1960 LIST WAS NOT INTENDED TO BE EXHAUSTIVE AND THAT EXPORT INFLATION INSURANCE SCHEMES FELL WITHIN THE GENERAL PROHIBITION OF ARTICLE XVI:4. HE STRESSED THE SERIOUSNESS WITH WHICH HIS GOVERNMENT VIEWED THESE SCHEMES, CALLED FOR THEIR ABOLITION, AND NOTED THAT HIS GOVERNMENT RESERVED ITS RIGHTS TO PURSUE THIS MATTER FURTHER, EITHER IN THE GATT OR BY OTHER AVAILABLE MEANS. UNQUOTE.

4. COMMENT: A. AFTER THE MEETING ABBOTT AND BRENNER, EC
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DIVISION CHIEF IN CHARGE OF EXPORT ECREDIT AND INSURANCE PROGRAMS (DG-1, D-4), SAID THAT COMMISSION IS STILL COMMITTED TO ITS PROPOSAL TO SEEK GRADUAL DISMANTLEMENT OF EII SCHEMES BY COMMUNITY MEMBER STATES. BRENNER ADMITTED THAT THERE CONTINUED TO BE SUBSTANTIAL RESISTANCE TO THE COMMISSION PROPOSAL PARTICULARLY FROM THE FRENCH. HE ALSO THOUGHT THAT THE COMMISSION MIGHT NEED TO REWORK PROPOSAL TO INCLUDE EXPORT FACILITY SCHEMES INSTITUTED BY DENMARK AND THE NETHERLANDS. BRENNER GAVE US THE IMPRESSION THAT ALTHOUGH THE COMMISSION PROPOSAL

IS STILL "ON THE TABLE," NO ONE APPEARS DETERMINED TO PUSH IT
IN THE NEAR FUTURE.

B. ON WP REPORT, ABBOTT SAID, IF U.S. MAKES STATEMENT WHEN MATTER
COMES BEFORE THE GATT COUNCIL, THAT THE EC WILL TAKE A SIMILAR
"NON-POSITION" AS IT DID IN THE WP, AND THAT THE FRENCH AND UK
WILL RESPOND TO U.S. AN ALTERNATIVE IS TO ALLOW COUNCIL ADOPTION
OF REPORT WITHOUT COMMENT. GIVEN THE BROADER IMPLICATIONS OF
SUCH SUBSIDY SCHEMES AND THE IMPORTANCE WE ATTACH TO STOPPING
THEIR SPREAD, WE RECOMMEND THAT U.S. MAKE A STRONG STATEMENT IN

THE GATT COUNCIL. IN ADDITION TO CALLING FOR DISMANTLEMENT OF
SUCH SCHEMES, U.S. COULD ALSO POINT OUT THAT EXPERIENCE OF
WP POINTS OUT INCREASING NEED FOR MTN TO MORE CLEARLY DEFINE
UNACCEPTABLE SUBSIDY PRACTICES. VANDEN HEUVEL

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